



The intersection of Main St. and Wall St. seems more perilous than ever.

REUTERS/JESSICA RINALDI

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The Wall Street disconnect

AFTER TWO MONTHS OF PROTEST, WALL STREET AND MAIN STREET ARE STILL TALKING PAST EACH OTHER

BY MATTHEW GOLDSTEIN AND
JENNIFER ABLAN
NEW YORK, NOV 18

IT WAS A TELLING moment at the height of the Occupy Wall Street protests.

John Paulson, the hedge-fund trader who famously made billions betting on the collapse of the housing market, was threatened by the demonstrators with a march on his Upper East Side home in New York last month. Paulson responded by

putting out a press release that described his \$28 billion, 120-person fund as an exemplar of the American Dream: "Instead of vilifying our most successful businesses, we should be supporting them and encouraging them to remain in New York City."

Other captains of finance like to portray themselves as humble entrepreneurs. One owner of a multi-billion-dollar hedge fund grumbled in the midst of the financial crisis that he has to worry not only about making trading decisions but also about "all the

hassles that come with running a small business."

With U.S. cities moving this week to crack down on Occupy Wall Street encampments - including the one in New York's Zuccotti Park - the staying power of the movement is in question. Whatever its future, it's clear that so far, the Occupiers haven't changed many minds on Wall Street over blame for the country's hard times. The cognitive disconnect between the protesters and the captains of finance is alive and well.



(Left) Jason Ader, chief executive officer of Ader Investment Management, poses for a portrait inside his office in midtown Manhattan. (Right) A protestor takes part in a recent Occupy Wall Street rally in New York.



David Mooney, chief executive officer of Alliant Credit Union in Chicago, one of the nation's larger credit unions, used to work at a one of Wall Street's top banks, JPMorgan Chase. There's a vast cultural gap between Wall Street and his new world, he says: Old friends from the Street, he says, now jokingly refer to him as a "socialist." A credit union is supposed to be run in the interests of all members, he says, while commercial bankers tend to see consumers as customers who can be "exploited" by layering on more fees.

Says Mooney: "I don't say this lightly, but the consumer is simply an income stream and exploiting that is the purpose of the banking organization."

In conversations with nearly two dozen current and former bankers, finance professionals and money managers across the United States, the prevailing sentiment is that the anger at Wall Street's elite is misguided and misdirected. Blame the politicians and policymakers in Washington, many of them say, for encouraging people to buy homes they couldn't afford and doing nothing to stop or discourage U.S. consumers from piling on more than \$10 trillion in household debt.

"I think everyone gets what the anger is about... But you just can't say, 'Well I want all debts forgiven.' That is not happening," says one West Coast trader, who like most still working in the financial services industry, declined to be identified by name in this article.

The disconnect, says Jason Ader, a former top Wall Street casino analyst turned hedge fund manager, is in part a simple product

of Wall Street's isolation from the hardship out there. Ader says he spends a lot of his time in Las Vegas, one of America's hardest-hit housing markets, and thus wasn't too surprised by this fall's anti-Wall Street outburst.

"I think everyone gets what the anger is all about."

"I see plenty of despair in places like Las Vegas, where in some neighborhoods every other house is vacant or foreclosed and lots are overgrown by weeds," says Ader, who sits on the boards of Las Vegas Sands Corp and a small Nevada community bank called Western Liberty Bancorp.

But the 43-year-old Ader, who manages \$200 million in his hedge fund, says it's a different story for many of the wealthy who work in finance in New York City and don't spend a lot of time in states with high unemployment and high foreclosure rates. Living in Manhattan or the Hamptons or hedge fund havens like Greenwich, Connecticut, can lead to a bit of myopia, he says.

"At first I had friends who were scratching their heads at the protests," says Ader.

TO PUT IT BLUNTLY, many on Wall Street still see the events leading up to the financial crisis as a case of banks having legitimately sold something - whether it be mortgages or securities backed by those loans - that

someone wanted to buy.

Thomas Atteberry, a partner and portfolio manager with Los Angeles-based First Pacific Advisors, a \$16 billion money management firm, says his success "wasn't a gift" and he had to work hard to get where he is. Atteberry says he understands the frustration many feel about income inequality. But he said the problem isn't with those who are successful, but rather our "tax codes and regulations."

While some members of the financial elite say they are willing to pay higher taxes, they note the picture for Wall Street firms is not as sunny as some on Main Street might paint it. Wall Street banks already are beginning to shed jobs, and consulting firm Johnson Associates Inc. is predicting bonuses for those who remain will shrink by 20 percent to 30 percent.

Complaints over new financial regulations burdening Wall Street firms are a major reason blamed for the layoffs. Sit down with a hedge fund manager or a top trader and it won't take long before he or she grabs some spreadsheet that shows all the new rules and regulations coming out of the Dodd-Frank financial reform bill.

Many of America's well-to-do, not just Wall Streeters, say they don't feel particularly advantaged. A recent survey by marketing firm HNW Inc. found that half of the nation's richest 1 percent "don't see themselves as being part of that elite group." Also, 44 percent of those surveyed told HNW's pollsters they already pay too much in taxes.

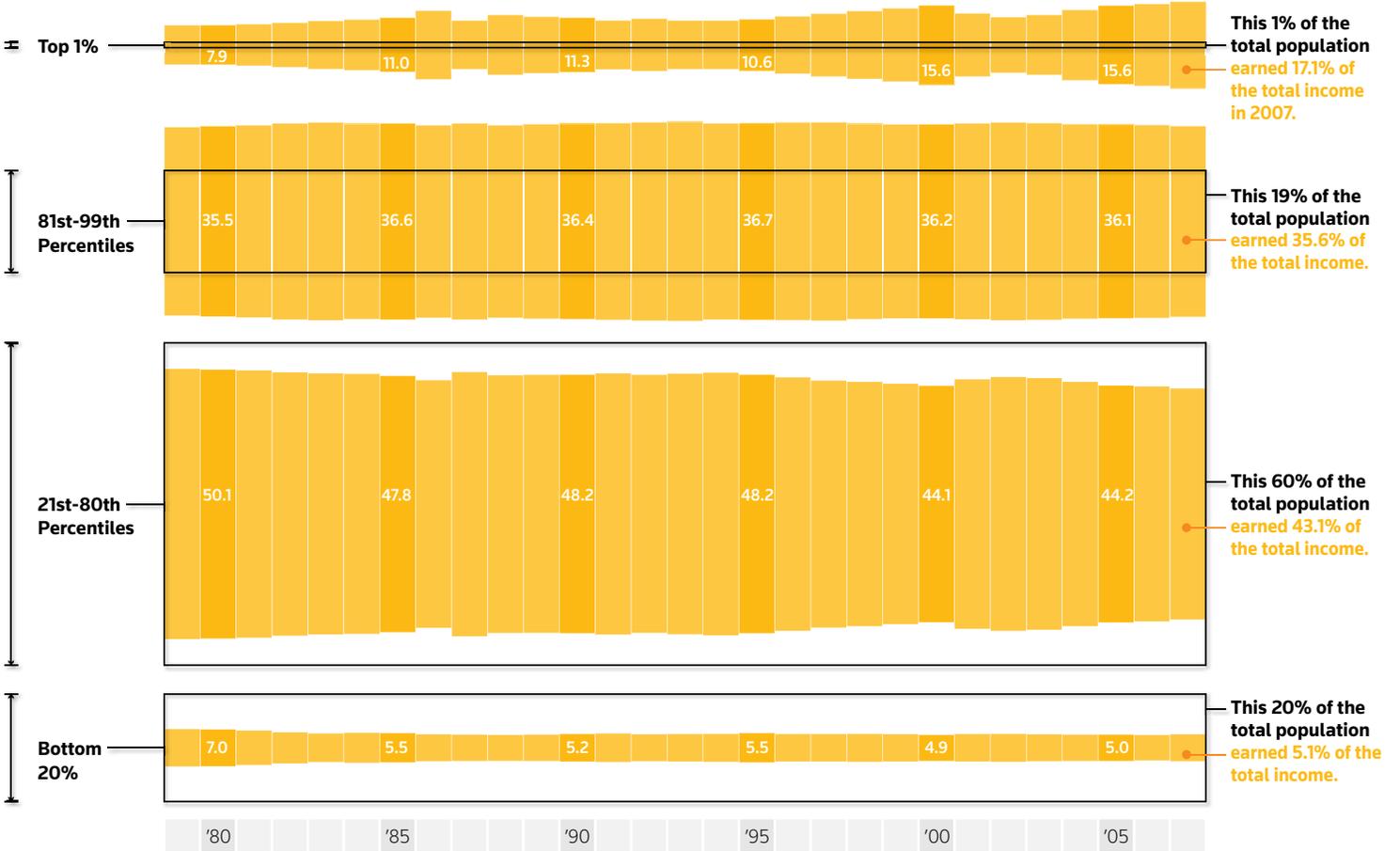
Maybe it is just the ethos of Wall Street, where success is defined solely by who makes the most money, that makes it hard

Ninety-nine to one

The top U.S. earners have taken home a greater proportion of overall income since 1979.

Each Share of the Population...

...AND ITS SHARE OF TOTAL AFTER-TAX INCOME



Source: Congressional Budget Office

Note: Data adjusted for inflation

for financiers to feel they've wronged anyone. But in a time of 9 percent unemployment and 15 percent of U.S. citizens receiving food stamps, some Wall Street alums say the financial elite are doing themselves no favors by giving the appearance of shrugging off the current mood.

"I think Wall Street hasn't taken in how much anger there is out there and they haven't taken partial responsibility for the financial crisis," says Brookings Institution fellow Douglas Elliott, who was an investment banker for two decades before joining the liberal-oriented public policy group. "I think both sides - Wall Street and Main Street - misunderstand each other."

Some who get paid to advise the rich on how to deal with the media and the public are telling clients to pay attention.

Robert Dilenschneider, founder and principal of The Dilenschneider Group

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Who was occupying Wall Street? :

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corporate consulting group, recently sent a report to his clients telling them that many of the protesters taking part in the Occupy movement are not a bunch of unemployed crazies and hippies.

“The CEOs in big board rooms in Paris, in Zurich and New York don’t normally think about people who are demonstrating in parks,” says Dilenschneider, whose firm advises some of the biggest companies in the world. “In the banking and financial area, we are telling our clients you have to explain more completely what makes up your business and why your profits are what they are.”

SOME OF THE DISCONNECT is simply a matter of lifestyle and the fact that the super wealthy really do live differently from everyone else. Hedge fund managers and bankers fly around on private jets, live in palatial penthouse apartments overlooking Central Park and have second homes in the country.

In New York City, the average pay for those working in finance is \$361,183, more than five times the average salary of \$66,106 for all workers in the city, according to the New York State Department of Labor.

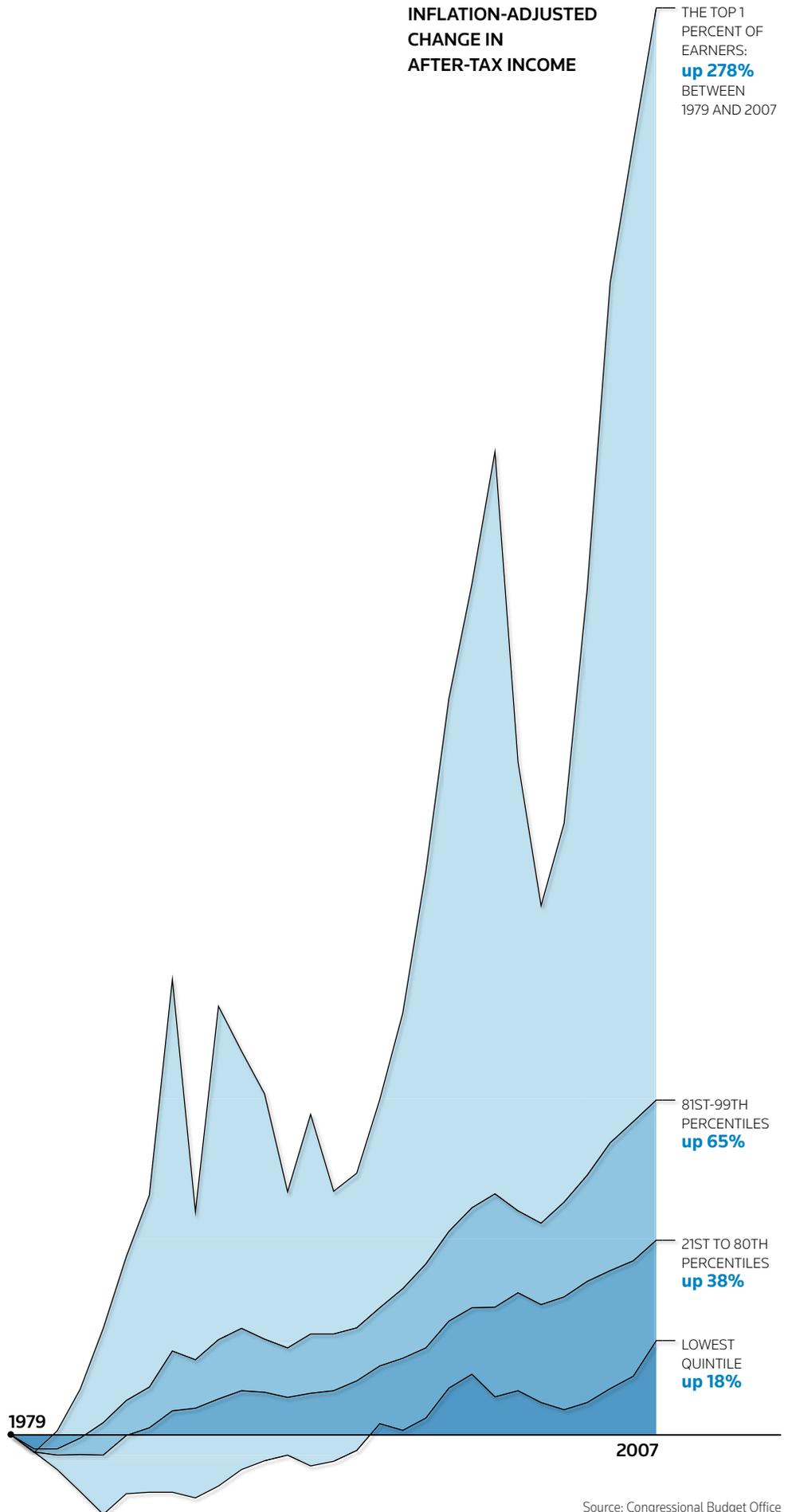
This disparity in income and attitudes was evident in the response of hedge fund managers like Paulson who portrayed themselves as humble businessmen. Says Wall Street historian Charles Geisst, “Hedge funds may be small businesses in terms of labor intensity, but in terms of capital intensity they are just the opposite.”

A spokesman for Paulson said he had nothing more to add on the subject.

Former Wall Street practitioners say the Street does not lend itself to a lot of introspection. “The world of investment bankers and especially the trading floor region is notoriously hermetically sealed,” says Kenneth Froewiss, a retired JPMorgan Chase investment banker and former finance professor at New York University’s Stern School of Business. “The walls may be filled with screens beaming the latest news, but there is typically an obliviousness as to what is happening across the street.”

THERE ARE EXCEPTIONS, of course. Some are saying it may be time for the government which has bailed out the banking system to help millions of struggling homeowners.

One of those is former top Pacific Investment Management Co executive Paul McCulley, best known for his analysis on central banks and monetary policy when he worked at the world’s biggest bond fund. McCulley, who retired a year ago from



Source: Congressional Budget Office



REUTERS/EDUARDO MUNOZ

A man plays a flute as he holds a copy of "The Occupied Wall Street Journal," a newspaper published by some of the Occupy Wall Street protesters in New York.

Newport Beach, California-based PIMCO to become a consultant with a public policy firm, enjoys the wealth he accumulated in his old role. He lives in a house by the water where he docks his two boats. But he says Wall Street went too far.

"Our society was ripe for a convulsion about social justice, and Occupy Wall Street was the catalyst for that," says McCulley. "New York can be very insular. It is not the real world and neither is Newport Beach."

Now that he's no longer working for PIMCO, McCulley is a bit more free to speak his mind. And he says the only way to jumpstart the U.S. economy is for the federal government to get behind a serious program to encourage consumer debt forgiveness and principal reductions on mortgages by banks.

McCulley noted that mortgage firms Fannie Mae and Freddie Mac have been propped up by about \$169 billion in federal aid since they were rescued by the government in 2008, yet there's a "a moral overtone" to the argument against reducing mortgage debt burdens for individual borrowers.

"Wall Street capitalism has given us a foul

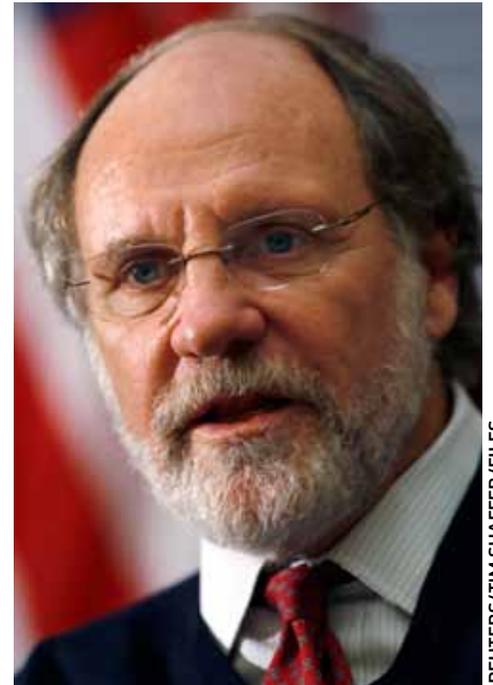
stench in our society," says McCulley.

The disconnect continues.

Just this week, top executives at Fannie and Freddie found themselves drawing fire on Capitol Hill for trying to distribute nearly \$13 million in bonuses to key employees.

And the Oct. 31 collapse of MF Global Holdings is prompting some critics to say Wall Street hasn't learned any lessons from the financial crisis. The futures brokerage house filed for bankruptcy after investors and traders became fearful that MF Global had taken on too much exposure to European sovereign debt in a bid to juice revenues.

The risky trade was put on by former New Jersey Governor Jon Corzine, a former Goldman Sachs Group chief executive. Last year, Corzine was saying Wall Street investment banks had taken on too much risk in the months leading up to the financial crisis. On the lecture circuit Corzine was calling for tighter regulation of Wall Street, even while his firm was borrowing more and more money to bet on some of the riskiest European debt. A Corzine representative declined to comment.



REUTERS/TIM SHAFFER/FILES

Former New Jersey Governor Jon Corzine's risky trades on European sovereign debt helped sink MF Global Holdings, the futures firm he resigned as chief executive officer from on Nov. 4, 2011.

William Cohan, the author of several Wall Street-related books and a former Lazard investment banker, said MF Global was acting as if the 2007-2008 crisis never

happened: "You would have to be living under a rock if you didn't get the message of the financial crisis."

(Reported by Matthew Goldstein and Jennifer Ablan, with additional reporting by Sam Forgione; editing by Michael Williams and Claudia Parsons)



REUTERS/LORI SHEPLER

Paul McCulley, a former PIMCO managing director, posing at his Newport Beach, Calif. home on the water, says he favors seeing his taxes go up.

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